May 2023

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Market outlook

#1 Market & Macro

"Caution and flexibility remain the order of the day"


Björn Jesch

"We are living from data point to data point, constantly reassessing our position," Björn Jesch, Global Chief Investment Officer, says. There are, in his view, several uncertainties. Currently it is difficult to assess what to weight highest: concerns about a still far too high inflation, a recession or a spill-over of the problems in the U.S. regional banking sector. Forecasting the further development of capital markets is therefore, according to Jesch, extremely difficult. It was not without reason that Jerome Powell, chairman of the U.S. Federal Reserve, recently pointed out that the future path of inflation, the labor market and the economy as a whole in the United States was highly uncertain. Even corporate figures of the first quarter were not completely unambiguous.
For investors, caution and flexibility are the order of the day. The valuation of the U.S. equity market was, after all, supported by the recent sharp drop of 10-year U.S. bond yields, particularly its interest-rate-sensitive sectors such as technology and communications, which are currently assessed positively. However, we expect interest rates to be higher by the end of the year than the market is currently pricing in.

Topics driving capital markets

Economy: Europe got off to a good start into the second quarter

- In the United States, annualized economic growth registered a rather meagre 1.1% in the first quarter of 2023. In the previous quarter, the fourth quarter of 2022, the economic output still increased by 2.6%.
- In Europe, the economy started well into the second quarter, as signalled by the Purchasing Managers Index, reaching an 11-month high of 54.4 points thanks to a solid service sector.

Inflation: rates still far too high

- The pace of the further decline of U.S. interest rates might be much slower than expected by some market participants. For this reason, we do not expect any rate cuts before the second quarter of 2024.
- In the Eurozone, core inflation should peak in spring. In Japan, we expect inflation rates to fall, reaching 2.5% by the end of 2023.

Interest rate policy: the European Central Bank is likely to continue to hike rates

- The U.S. Federal Reserve met expectations and raised interest rates for the tenth time in a row to currently 5.00 to 5.25%. Fed chairman Powell has stopped discussing any further rate hikes recently.
- The European Central Bank raised interest rates by another 25 basis points at the beginning of May. Since the core consumer-price inflation is still far too high, we do expect further interest rate hikes.

In focus: popularity of electric cars on the rise – China already very strong

35 percent*

– this is the figure by which the number of electric cars sold will grow in 2023. This means that a total of 14 million electric vehicles will be put in operation world-wide this year.

60 percent *

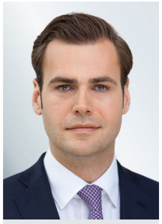
of all electric vehicles sold world-wide in 2022 were manufactured in China which also clearly dominates the market for batteries and other components.

* Source: International Energy Agency, Trends in electric light-duty vehicles – Global EV Outlook 2023

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses which may prove to be incorrect.
Source: DWS Investment GmbH, as of 09 May 2023

#2 Equities

Uncertain environment argues in favor of broad positioning

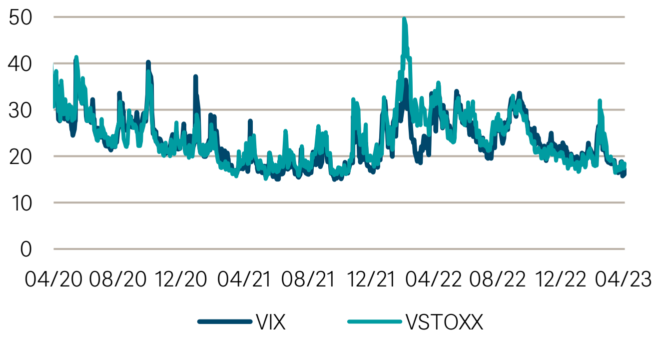


Marcus Poppe

European stocks have performed well in the year up to now. At the beginning of May, the EuroStoxx 50 took over the lead among major stock indices, closely followed by the Dax, Germany's leading index. "The quarterly results presented by corporations were surprisingly good," Marcus Poppe, Co-Head European Equities, states. Companies benefited from their power of keeping prices high although costs had already started to trend downwards. However, Poppe remains rather cautious with a view to positioning. "Wide swings of the market in both directions, positive or negative, are quite possible." This is also clearly reflected in the behavior of market participants: "Many feel uneasy and prefer to remain at the sidelines," Poppe says. "Over a short to medium horizon, return opportunities should remain rather moderate, starting out from the current level."
Consumption is doing surprisingly well – to the benefit of corporations. Should things remain this way, central banks would be forced to continue on their path of high interest rates in order to curb inflation. This could, sooner or later, lead to a somewhat stronger decelerating effect. If demand dwindled in the foreseeable future, this would, on the one hand, alleviate the pressure on interest rates but, on the other hand, depress profits. In this environment, he regards structural growth stocks, for example from the healthcare sector or European banks, as promising. All in all, Poppe favors a broad positioning. "I am not sure that we have seen everything in the markets yet."

Volatility on the stock markets rather low again

Expected range of volatility of the S&P 500 (VIX) and the EuroStoxx 50 (VSTOXX).



Source: DWS Investment GmbH, as of 02 May 2023

U.S. equities

Currently no upside potential – rather headwinds from corporate earnings

- Of late, the U.S. economy has shown signs of weakening. There are a number of indications that it will slide into a mild recession in the course of this year.
- The probability of zero growth of corporate earnings at their best is rather high.
- Given their still high valuation, we currently do not see any upside potential for U.S. equities.

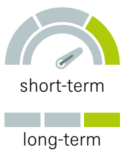
German Equities

DAX: sound economic and corporate data – but currently no impetus round the corner

- German equities have been recently supported by an economic development beating expectations and sound corporate earnings.
- Nevertheless, there currently is a lack of impetus to pave the way for a continuation of the good performance we have witnessed at the beginning of this year.
- There is little room for substantial price rises from the current level, at least at index level. Selected stocks, however, still offer price opportunities.

Equities Europe

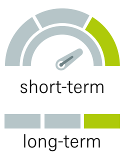
Selective investments appear to be more promising than buying the broad market



- European equities have done rather well in the current year, clearly outperforming also their U.S. counterparts.
- Even though the discount compared with U.S. stocks remains high – roughly 27% –, also European companies have to bear with the fact that earnings expectations were revised downwards.
- In our view, selective investments are more promising currently than buying the broad market.

Equities Emerging Markets

An upturn seems to be quite likely in the second half of 2023



- The headwind for emerging market equities is gradually waning – the dollar strength seems to be over for the time being. The prospect of an end to interest hikes in the United States should provide additional support.
- In addition, most emerging markets are moderately valued. Provided that a potential recession in the industrialized countries will be moderate, we see opportunities for a cyclical recovery in the second half of the year.

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#3 Fixed Income

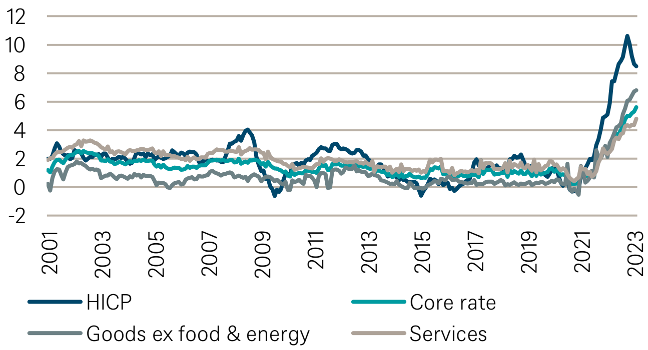
European high-yield bonds: a risk well rewarded


Per Wehrmann

The returns of selected interest-bearing investments have meanwhile turned them into a serious alternative to equities. This currently applies in particular to euro high-yield bonds. “Their performance this year should be primarily based on current returns and less on broad price gains,” Per Wehrmann, Head of European High Yield, expects. The risk structure within this segment is comparably favorable. Over 60% of the bonds on the market have a BB rating, underlining the good average quality of these securities.
Nevertheless, this segment is not without risk either, Wehrmann cautions. “The market is passing a critical phase of the credit cycle.” Such phases have repeatedly witnessed “accidents” on the financial market. Although currently very low default rates will probably rise. Wehrmann expects this increase to be rather contained due to the low short-term refinancing needs of corporations. Investors should, however, be prepared to face higher volatility.

Eurozone: core inflation rate stubbornly high

Inflation rate components in the Eurozone, in % year-on-year



Source: DWS Investment GmbH, as of May 02, 2023

U.S. government bonds (10 years)

Currently no clear direction in sight

- The further price development will depend on whether there is further turmoil in the U.S. banking system.
- Should this be the case, this could boost the prices of 10-year U.S. bonds further.

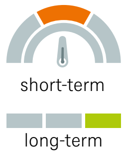
German government bonds (10 years)

Slightly rising yields expected

- 10-year Bund yields are only slightly above the level reached at the beginning of this year.
- In the short term, we expect yields trending upwards, going hand in hand with price losses.

Emerging market sovereign bonds

Opportunities abound but careful selection is key



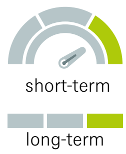
- Emerging market sovereign bonds offer the most interesting risk-return ratio.
- Returns are substantially higher than in the industrialized nations whereas risks have rather receded after the reopening of the Chinese economy.

Credit

Investment Grade

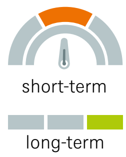
USA

Eurozone

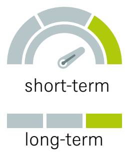


High Yield

USA



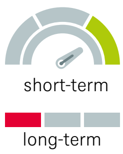
Eurozone



#4 Currencies

Euro/Dollar

Still good arguments for a strong dollar



- The dollar has depreciated against almost all major currencies, including the euro, which recently broke 1.10.
- Better growth prospects in the European Union and the firm commitment of the European Central Bank to lower inflation to two percent are expected to continue to support the euro.

#5 Alternative assets

Gold

Gold should be further in demand as a traditional safe haven

- In early May, the gold price came pretty close to its historical high of 2,072.49 dollars.
- This precious metal should remain in high demand in these uncertain times. We therefore expect gold prices to continue developing well.

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Glossary

Basis points
1/100 of a percentage point. 100 basis points thus correspond to one percentage point.

Core Rate
Inflation rate that does not take into account price changes in energy and food, which are often particularly volatile.

GDP – Gross Domestic Product
Value of the goods and services produced within the geographic boundaries of a country during a specified period of time

HICP
The Harmonised Index of Consumer Prices is a consumer price index that is produced by each European Union Member State using a harmonised methodology.

High Yield (HY)
Corporate bonds from issuers with a poor credit rating – these papers generally offer comparatively high interest rates.

Investment Grade (IG)
Corporate bonds that are deemed by rating agencies to have a low risk of default (at least medium credit rating).

Monetary Policy
Economic policy measures that a central bank takes to achieve its goals.

Price-to-earnings (P/E) ratio
The price-to-earnings (P/E) ratio compares a company's current share price to its earnings per share.

Return
Ratio of outgoing payments to incoming payments of an investment.

S&P 500
Index weighted by market capitalisation that represents the 500 leading listed companies in the U.S.

US Federal Reserve (Fed)
The U.S. Federal Reserve, often referred to as "the Fed", is the central bank of the United States.

VIX
Expresses the expected range of fluctuation or volatility of the S&P 500 index.

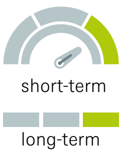
VSTOXX
Expresses the expected range of fluctuation or volatility of the EuroStoxx 50 index.

Legend

The strategic view by March 2024

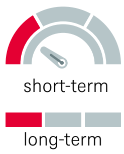
The indicators signal whether DWS expects the asset class in question to develop upwards, sideways or downwards. They indicate both the short-term and the long-term expected earnings potential for investors.

Source: DWS Investment GmbH; CIO Office, as of 09 May 2023



Positive return potential

Potential profits but also risk of loss rather limited



Negative return potential

Important Notes